

Report of the auditor-general to Limpopo Provincial Legislature and Council of Musina Local Municipality.

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Musina Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No. 3 of 2017) (DoRA).

Basis for qualified opinion

Receivables from non - exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for the accounts receivable from non - exchange transactions, due to the status of the accounting records. I was unable to confirm these balances by alternative means. Consequently, was unable to determine whether any adjustment was necessary to accounts receivable from non - exchange balance stated at R168 801 177 in the financial statements.
4. The municipality did not assess at the end of the reporting period whether there is any objective evidence that a receivable from non - exchange transactions amounting to R155 587 314 as disclosed in note 4 to the financial statement is impaired as required by GRAP 104, *Financial instruments*. As the municipality did not maintain adequate records for the estimation of the impairment amount at year end, I was unable to determine the full extent of the overstatement on receivable from non - exchange transactions balance stated at R168 801 177 as it was impracticable to do so.

Value Added Tax

5. I was unable to obtain sufficient appropriate audit evidence that Value Added Tax for the current year had been properly accounted for, due to the status of the accounting records. I identified unexplained differences amounting to R16 051 196 between the underlying accounting records and the amount presented in the financial statements. I was unable to confirm the Value Added Tax by alternative means as supporting evidence of the amount presented in the financial statements could not be provided. Consequently, I was unable to

determine whether any adjustment was necessary to Value Added Tax receivables stated at R26 231 726 in the financial statements.

Payables from non – exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for the accounts payable from non - exchange transactions, due to the status of the accounting records. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to accounts payables from non - exchange transactions stated at R210 492 674 in the financial statements.

Interest earned on outstanding receivables

7. I was unable to obtain sufficient appropriate audit evidence for revenue interest earned due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and for reconciliation of these transactions and events to the financial statements. I could not confirm revenue interest income by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue interest earned stated at R... (2016-2017: R3 014 284) in the financial statements. Additionally, there was an impact on the receivable from exchange transactions and non – exchange transactions.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

11. I draw attention to note 56 to the financial statements, which indicates that the municipality incurred a net loss of R65 461 261 during the year ended 30 June 2018, and as of that date the municipality's current liabilities exceeded its current asset by R214 101 735. As stated in note 56, these events or conditions, along with the other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

13. As disclosed in note 40.1 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material impairments – accounts receivable

14. As disclosed in notes 3 and 4 to the financial statements, material impairments amounting to R8 273 186 (2016-17: R4 348 850) from exchange transactions and R23 511 239 (2016-17: R24 412 227) from non - exchange transactions were recognised as a result of irrecoverable trade receivables.

Other matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

16. The supplementary information set out on pages x to x does not form part of the annual financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Unaudited disclosure notes

17. In terms of section 125 (2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
19. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

20. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 1: Basic Services and Infrastructure	71-78
KPA 5: Local Economic Development	79-83

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority: Key Performance Area (KPA) 1 – Basic service delivery

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of indicators and reported achievement listed below. This was due to a lack of technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators and reported achievement as reported in the annual performance report.

Reported performance indicator / measure	Reported achievement per APR
Number of kilometres of internal gravel streets maintained in Musina	300km/machine hrs
Percentage of clean, maintain and reconstruction of hydraulic structures	75%
Routine road maintenance to surfaced roads	1125 m ²

Reported indicator: Number of high masts lights constructed in Madimbo sports ground.

28. The reported indicator in the annual performance report was not included in the SDBIP. The below indicator was reported in the annual performance report without the necessary approvals being obtained, furthermore, it was not planned or budgeted for.

Reported indicator in the APR but not included the SDBIP	Planned targets per APR	Reported actual achievement per APR
Number of high masts lights constructed in Madimbo sports ground	4	4

Various indicators

29. There was no clear and logical link between the indicators and targets listed below and the strategic objective to which it relates. The indicators focused on monitoring reports, while the strategic objective aimed to achieve service delivery. The systems and processes that enable reliable reporting of the achievement against these targets was also not adequately designed.

Indicator	Reported actual achievement per APR
Total Number of samples collected and analysed (blue and green drop)	108

Number of planned and maintenance work conducted (Water supply annually)	12
Number of planned and maintenance work conducted (Water supply annually)	10

Various indicators

30. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the below indicators as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Reported indicators/ measures per APR	17/18 variance per APR	Measures taken to improve performance per APR
Number of planned and maintenance work conducted (Sanitation annually)	(2)	Consider budget allocation
Percentage of clean, maintain and reconstruction of hydraulic structure	(25%)	Additional resourcing
Number of speed humps constructed	(2)	Consider budget allocation
Routine Road maintenance to surfaced roads	(375m ²)	Consider budget allocation
Number of Multipurpose community centre constructed in Nancefield	(1)	Align project to MIG implementation plan
Number of sports Ground/stadium constructed in Muswodi village	(1)	Court to resolve the matter

Various indicators

31. The reported achievements for the indicators listed below did not agree to the supporting evidence provided.

Reported performance indicator / measure	Reported actual achievement per APR	Audited achievement
Total Number of samples collected and analyzed (blue and green drop)	108	129
Number of planned and maintenance work conducted (Water supply annually)	12	11
Number of kilometres of internal gravel streets maintained in Musina	300km / machine hrs	0
Percentage of clean, maintain and reconstruction of hydraulic structures	75%	0

Number of speed humps constructed	2	0
Number of MLM fleet maintained	8	0
Routine road maintenance to surfaced roads	1 125m ²	0
Kilometres of distance of copper to Aluminum conductor replaced in Musina	3km	0
Kilometers of paved roads constructed in Nancefield EXT4	1,8km	0

Development priority: Key Performance Area (KPA) 5 – Local economic development

Various indicators

32. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of indicators and reported achievement listed below. This was due to a lack of technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators and reported achievement as reported in the annual performance report.

Reported performance indicator / measure	Reported achievement
Number of SMME developed	1
Number of jobs created through poverty alleviation	1 583

Various indicators

33. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the below indicators as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Reported indicators/ measures per APR	17-18 variance per APR	Measures taken to improve performance per APR
Number of SMME marketing and exhibitions coordinated and conducted	(3)	Consider budget allocation
Number of SMME developed	(3)	Consider budget allocation

Other matters

34. I draw attention to the matters below. My opinions are not modified in respect of these matters.

Achievement of planned targets

35. Refer to the annual performance report on pages 71 and 79 for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 16 of this report.

Report on the audit of compliance with legislation

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

37. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

39. Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

41. Reasonable steps were not taken to prevent irregular expenditure amounting to R21 734 708 as disclosed in note 41.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviations from the procurement processes.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 948 074, as disclosed in note 41.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused due to interest on late payments.

Revenue management

- 43. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
- 44. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Liability management

- 45. Short-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2)(a) of the MFMA.
- 46. Short-term debt was not repaid within the financial year, as required by section 45(4) of the MFMA.

Conditional grant

- 47. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and Integrated National Electrification Programme was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.

Consequences management

- 48. Unauthorised, Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA
- 49. Allegations of financial misconduct against senior managers were not always tabled before council, as required by disciplinary regulations for senior managers 5(2).

Strategic planning and performance management

- 50. The performance management system and related controls were not maintained as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted managed, as required by municipal planning and performance management regulation 7(1).

Other information

- 51. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
- 52. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

53. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
54. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

55. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the Annual Performance Report and the findings on compliance with legislation included in this report.
56. The accounting officer failed to develop mechanisms of oversight and monitoring for early detection and prevention of cash flow and liquidity challenges experienced by the municipality during the period under review. Leadership should ensure that adequate cash management processes are implemented to prevent liquidity challenges.
57. The critical position of Chief Financial Officer remained vacant for full 12 months. The council should ensure that senior positions are filled timely to ensure stability in the municipality.
58. Senior management did not adequately oversee the operations of the municipality, as the financial statements submitted for audit contained material misstatements and material findings have been identified in the annual performance report and on compliance with laws and regulations. Further senior management failed to early detect cash flow and liquidity challenges of the municipality. Senior management should develop internal controls to ensure early detection of misstatements and cash management process.
59. The municipality's reactive approach in addressing inadequate systems of internal control indicates that mitigating processes are not effective. The council and audit committee should ensure that adequate risk identification strategies are developed.

Auditor General

Polokwane

03 December 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Musina Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.